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The Big Dam Gobbledygook

Diversion of Interest in Reclamation Project Power Charges Would Cost Taxpayers Billions

by LESLIE A. MILLER

GET a tight grip on your wallet, Mr. and Mrs. U.S.A. For if Congress permits it, and you don't watch out, a bit of governmental gobbledygook may prowl into your pocketbook and filch some of your hard-earned dollars.

Probably you never heard of this new-fangled, government-encouraged pilferer which is in practical operation right now. Around Washington it's referred to as "interest component."

But if you don't want *billions* which should be paid into the U. S. Treasury switched into compounded government spending, you should know about this "interest component" deal.

Perhaps the best way to simplify this intricate proposition is to reduce it to a denominator common to all U. S. taxpayers.

You know, for instance, that as the United States borrows your money, you receive a U. S. savings bond. You are paid interest on the bond, just as in the case of any loan you make.

Then, too, you know the money thus loaned to the Treasury is appropriated by your Congress to help operate the vast machinery of Federal government.

One of the biggest chunks of such money Congress deals out for non-military activities is alloted to the Bureau of Reclamation, in the Department of the Interior. With these appropriations, Reclamation constructs great dams in the west. They are supposed to be *primarily* facilities for irrigating land and increasing our crop-producing acreage.

The original concept of this program was that Federal funds would build the projects. Then increased land values and production resulting would provide for amortizing the cost. The capital cost and interest would be paid back into the Treasury; it would have been loaned to the project as any lender would finance such an operation.

Almost as the Bureau began operations it became evident the cost of these projects would be so great the lands newly-irrigated could not carry the burden of amortizing the investment. Then it was realized a source of considerable income was inherent in the big dams, where hydro-electric power installations could be added. Power from them, it was found, could be sold at a profit; the additional income could "justify" and help pay out the job. Thus "multiple-purpose dams," became the accepted designation of such projects.

The first big project of this type, which was financed by the government, was the Hoover Dam. So let's start with it.

Fundamental Law Never Changed

The Congressional Act authorizing Hoover Dam provided that those securing irrigation water from Lake Meade, the reservoir it formed, should pay back to the Treasury the cost chargeable to the lands benefited, *without* interest. There simply were not enough benefits to lands irrigated to make them pay back principal *and* interest.

However, that part of the investment charged to power installations was set up to pay back those

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capital costs *plus* interest at 4 per cent. Later, this was reduced to 3 per cent. Power thus shouldered a large part of the amortization load irrigation could not carry.

The pay-out period of Hoover Dam was set at 50 years. This "multiple-purpose" project has operated with efficiency and success.

There are some features about the Hoover Dam operation that should receive special mention. Federal funds were not used to build the electrical generating plant and transmission lines. Southern California interests built these power features which deliver the "juice" to Los Angeles.

The reason lands irrigated by these big dam projects cannot pay interest on their share of capital costs is because all irrigation schemes which could pay out as genuine reclamation jobs were constructed years ago. Roughly the financial procedure in setting up "multiple-purpose" dams now follows this pattern: First, all possible reimbursement irrigation can carry is shouldered onto it. Then power has to carry the additional cost-load to the limit of its potential income. Beyond reimbursement from irrigation and power a lot of cost is charged to "non-reimbursables;" to recreation, wild life, general good or whatever may be envisioned as "benefits" to the community at large.

The fundamental requirement of reclamation law that power production shall be incident to irrigation, has never been changed. The bedrock truth however is, we no longer have genuine reclamation projects — they are dominantly power schemes dressed up and fed to Congress as irrigation.

"Dam Without End"

Early in 1943, someone in the Department of the Interior looked at the amount of money involved in the interest pay-back from the power portions of these projects. It was a lot of cash. If, it was felt, Reclamation could use those millions, keep them instead of allowing this "interest component" to return to the Treasury as Congress had intended, a lot of projects could be "bailed out."

There was some debate over this point, and the submission of many conflicting opinions, but a few points were made clear.

As one example, Interior expected by charging 3 per cent on the power investment at Grand Coulee Dam, some $171 million would accumulate in 50 years. Interior hoped, it was suggested, that by the passage of appropriate legislation, power-interest money would be available for further "reclamation" projects.

Another by-product of hearings that were held was this: although the capital cost of power features in a dam would be amortized year after year and the principal thus reduced, it was planned to have the "interest component" charges continue *as though the full amount were still owing.* Even *after the principal was fully paid,* as power was sold, the "interest component" would persist, full rate, on original cost, dam without end!

Then, early in 1946, a bill was introduced in Congress (H.R. 5124) to legalize Reclamation's control of the "interest component" income — and not return it to the U. S. Treasury. Interest would be paid by the Treasury on bonds from the sale of which money would be appropriated to construct the big dams. No money would come back as interest from such application of Federal funds. Actually, taxpayers would have to pay taxes to pay the interest on the bonds which supplied the money in the first place — a dizzy-dollar merry-go-round.

This, briefly, suggests the general design — to get hands on the "interest component" and divert it.

Now take a case history on how this proposition would operate, the Central Arizona Project, for which bills have been introduced in Congress. *It is a dilly.*

Irrigation water has been supplied in the Phoenix-Tucson areas of Arizona from some of the oldest of all Reclamation installations, from watersheds

LESLIE A. MILLER, **former Governor of Wyoming (1933-1938) has long had an interest in the nation's natural resources. A former Land Commissioner and State Senator, Mr. Miller was Chairman of the Hoover Commission's "Task Force" on Natural Resources. He has written several articles on this subject and on government policies concerning it in national publications.**

near-by. Water allocations and lands cultivated originally were set up on the basis of crops requiring 2 to 3 acre-feet per season; grain and hay as examples.

Then it was found that more intensive crops, grapefruit, oranges, vegetables, (requiring nearly double the water) could be grown — if more water could be applied to the land.

Between 1940 and 1944, 468,400 acre-feet more water was being taken from the ground reservoir annually than was being replaced by underground flows. Withdrawal being about double the rate of recharge, a day of reckoning was inevitable. Instead of taking the annual water "crop," the operators were also drawing on the principal. Within 5 years the water table dropped an average of 20 feet throughout the district. Wells failed. Crops withered. A reported 150,000 acres went out of cultivation.

Additional well drilling, further shrinkage of river water supply, now has been capped by a cycle of grievous drought in this part of Arizona. Compounded calamity lies in this trick of fickle weather. Nobody can look at the plight of the area affected by basic water shortage intensified by drought without great sympathy for those who suffer. If Arizona can find available water to supply irrigation to acres put in tillage beyond the capacity of existing sources to assure such a supply, nobody can criticize its efforts to secure the water it could use. But the proponents of the Central Arizona project do not want to do this — they want the taxpayers of the nation at large to pay the capital costs of the irrigation installations designed to "rescue" their thirsty acres.

It is the proposed financial scheme of this project, of the way diversion of the "interest component" would operate, that we examine while having all sympathy for water-short Arizona.

When the dry fact became apparent, that there was not enough water to moisten some 700,000 acres which had been put in tillage, Arizona cried for rescue. Reclamation heard the cry. Blue-prints, cost estimates, bills in Congress emerged. As the scheme has been drawn, it is divided into two parts.

The first division of the plan contemplates putting electric pumps at Parker Dam on the Colorado River and other points along canals, to hoist annually some 1,200,000 acre-feet of water over a 987 foot lift, across mountain ranges, to let it flow into the existing water-short installations of Salt and Gila river basins.

The second part involves the construction of another series of canals and tunnels, from proposed Bridge Canyon Dam just below Grand Canyon National Park, including one tunnel unit which would be 80 miles long!

When this second part of the scheme is completed, water will flow by force of gravity to where it is used. The pumping lift of over 987 feet would be superseded; probably abandoned.

The super-damming wouldn't halt there. Bridge Canyon reservoir's limited capacity would fill with silt in 25 to 30 years. Total storage capacity of the reservoir would be 3,720,000 acre-feet, and the inflow of silt would be 127,000 acre-feet per year.

So, to protect the Bridge Canyon works from being choked with mud, another dam, Glen Canyon, (and several others later) would be built above Grand Canyon, to trap silt. Also contemplated is a 42 mile tunnel which would carry water *around* the national park, to Bridge Canyon reservoir.

And Nothing for Interest

Nobody is quite sure just how much the two divisions of the Central Arizona project will cost. Estimates run from $1¼ billion to over twice that amount. And that doesn't include the dams which will be mud-catchers up-stream from Bridge Canyon; Glen Canyon Dam, alone, would add $150,000,000 at cost levels of several years ago.

The Secretary of Interior has estimated that the *irrigation works portion* of the *first* division of this scheme would cost $415,343,000. If this were charged against the 700,000 acres which would receive additional water, it would amount to $600 per acre. But the water supplied would not be the total needed for farming that acreage. It would *supplement* other water available, and actually represent only about one-fourth of the total requirement.

Suppose then, that water which has supplied the older installations were to fail, through drought, silting of reservoirs, or other causes. If, for example, the three-fourths of water required which comes from the established sources were to shrink some 30 per cent, the whole area would be back where it now is — the Federal investment would have failed to make the "rescue" permanent.

Right here we should take a look at the cost of the whole contemplated project — including the eighty-mile tunnel and all appurtenant works. Senator McCarran put it graphically when he laid on the line figures to show the investment required would be equal to that of all of TVA, to all of the proposed St. Lawrence Seaway, five times that of Hoover Dam! Too much to lose, even for wealthy U.S.A.!

Now, how much of the amount chargeable to irrigation works do you think the irrigators would

pay back? The Secretary of the Interior answered that query submitted by Congress. Over 75 years of paying for water delivered, the users of this project would pay a maximum of $238,012,00.

Of this, all but $5,235,000 would be required for operation and maintenance. Pay-back by the irrigators would be but a drop in the bucket against the principal — and *nothing* for interest.

Power sales would have to supply what would be paid back into the Treasury — and here is where the "interest component" comes in; for interest on principal *is* levied in charges for power.

Last May, the House Committee on Public Lands put this blunt question: "How are construction costs of this project to be repaid?"

On June 28th, Secretary of the Interior Chapman replied: " . . . Construction costs for irrigation would be repaid largely *through use of the 'interest component' on commercial power.*"

Here is the hoped-for scheme of making interest paid in by power users pay the *principal.* No interest returned to the Treasury.

The Committee put another question to him: "How much interest on the national debt would result, to be borne by taxpayers, if this line of action were followed?"

Three Times the Original Cost

Assuming a reasonable period for construction when no interest would be paid, and 75 years in which there would be repayment, and that the interest rate would be 2½ per cent, here's the answer:

The *total* estimated capital cost of the first division of the Central Arizona project would be $708,000,090. BUT the 2½ per cent compounded *interest* on that amount, over the construction period and repayment time, would be — ***$2,075,729,000!***

The interest would be nearly *three times* the original capital cost!

That is just what the "interest component" gobbledygook means to you on this one project. Just ***this one,*** mind you.

Let's glance at just one other revelation of the "interest component" business.

In early 1950, Congress was considering the annual flood control (Army Engineers) appropriation bill. Bureau of Reclamation cohorts attempted to amend that bill so their plans for dam building in the Columbia River Basin would be approved. At that time, there was discussion of the "interest component" segment of this basin program. Senator Guy Cordon of Oregon pointed out that if these plans were carried through in intended scope, the "interest component" alone on these works could amount to $4¼ *billion* within 50 years.

Add that to the $2 billion of the Central Arizona project. Then contemplate what would stack up as "interest component" in many other proposals for Reclamation projects; the great Missouri Basin scheme, the pretentious dams and diversions contemplated on the Arkansas, the Rio Grande — the many other similar plans and programs, proposed and in preliminary investigation stages.

Can such Federal financing be justified? Reclamation has one answer which sounds plausible, and is persuasive. Its reasoning is that these projects lead to the building of new communities, underwrite new business, add to wealth — and that above the direct payments through the project financial plan, the tax base is broadened, income taxes increase, and by such means what may be an outright subsidy in building these projects, is balanced by what comes back to the Treasury through increase in taxes.

Even some hard-headed bankers have been inclined to believe this is valid reasoning. But carry it just one step farther.

Any enterprise which comes into a community contributes to the economic well-being, broadens the tax base, helps increase income taxes. If then, this argument is valid for some millions or billions in subsidy to an irrigation (power) project, it is just as valid for subsidizing any enterprise that brings the same comparable results. A steel plant, a copper mine, an airplane factory, a wholesale grocery, a hamburger drive-in — name any government or private enterprise, and in some proportion it does just what Reclamation says is a sound basis for subsidizing these dams.

What a proposition that theory would be if it were carried to the ultimate, logical conclusion! *If* it were sound!

By all means, buy Government bonds. They pay back $4 for every $3 invested if you hold them long enough. Meanwhile, this "interest component" should rightfully go to Treasury instead of to finance additional reclamation projects. To the extent this is done, you, as a taxpayer, will pay out fewer dollars in taxes in the long run, as your personal $3 Savings bond investment "grows" to $4.

You never heard about the "interest component"?

Well, you've heard about it now.

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